Neonex International 1969 Annual Report

Neonex International Ltd.

Neonex is a major industrial corporation engaged in the manufacture and distribution of consumer goods and services industries.

The Company's markets are:

Advertising & Communications
Consumer Goods
Food Services
Home Improvements
Leisure Time
Shelter
Transportation Services

Contents

Comparative Highlights (Dollars in thousands except for per share data)

	1969	1968 Restated	% Increase	1968 Reported	% Increase
For the year					
Net sales and operating revenue	$159,301	$140,736	13	$125,672	27
Net earnings	4,560	3,928	16	3,582	27
Cash flow	7,097	5,633	26	5,380	32
Capital expenditures	6,502	3,750	73	2,569	153
Return on equity	19%	19%	—	18%	6
Per common share					
Net earnings	.66	.57	15	.58	13
Cash flow	1.06	.85	25	.90	18
Equity	3.98	3.38	18	3.56	12
Year end position					
Total assets	93,019	63,876	46	56,565	64
Working capital	18,076	11,041	64	10,461	73
Long term debt	14,194	10,442	36	8,556	66
Convertible notes	16,085	—	—	—	—
Shareholders' equity	26,877	22,534	19	21,343	26
Employees	3,936	*		3,131	
Shareholders	4,050	*		2,075	

* not available

Report to Our Shareholders and Employees

In 1969 your Company's sales, net income and earnings per share rose to their highest level.

Annual sales and operating revenue increased 27% to $159 million in 1969 compared with $126 million for 1968. Consolidated net earnings were $4,560,000, a gain of 27% over the $3,582,000 reported for 1968, and earnings per share rose 13% to 66c in 1969 compared with 58c for 1968.

In the period since our last Annual Report considerable changes have occurred in the world that have affected your Company. On the more difficult side the stock market has had its greatest decline since the nineteen thirties, with our own stock suffering a substantial drop in market value.

The financial strength and earning capacity of your Company is clearly illustrated by its performance over this past year during which for each common share the book value rose to $3.98, earnings were 66c, and cash flow was $1.06. Over the last four years our compound growth in reported earnings per share has been 33%, total assets have now climbed to $93 million, shareholders' equity has reached $27 million and return on equity rose to 19%. Our position as one of the important industrial concerns contributing to the growth of the Canadian economy has been substantially improved as demonstrated by our sales growth to $159 million. These factors indicate the strength of your Company which may not be reflected by the present market levels.

A significant development in 1969 was your Company's substantial investment in Maple Leaf Mills Limited, a major Canadian integrated food company whose products serve the backbone markets of Canada and the world's growing population. Although Maple Leaf Mills has not shown the internal growth that has heretofore been a prime requisite of the Neonex expansion program, we feel that the growth opportunities are very real in a Company which has the assets, the strong net worth, and the earnings record of Maple Leaf Mills.

Your Company invested approximately $6.5 million for capital expenditures in 1969, of which $3.2 million was spent to maintain and upgrade the Company's existing plant and equipment, and $3.3 million was invested for expansion into new markets and profit opportunities.

In 1969, six of our seven divisions recorded appreciable gains in both sales and profits. The only exception to our growth trend was our Home Improvements carpet subsidiary, Imbrex Limited, which suffered a substantial decline in both revenues and earnings because of the termination in 1969 of its distributorship agreement with its major supplier.

In the same period your Company commenced construction of a major tufted carpet mill in Quebec in a joint venture with Bigelow-Sanford, Inc. of the United States, one of the world's leading carpet manufacturers. This new mill, known as Bigelow Canada Ltd. ensures a supply of quality products at competitive prices in an industry that has had exciting market growth.

In 1969 your Company made a major commitment in the modular construction field, establishing itself as one of Canada's important companies in the fast-growing shelter industry. Neonex also extended its transportation routes in 1969, by providing transport service from Montreal to Vancouver, vital in moving nationwide customer goods as well as its own manufactured products.

As capital has grown increasingly expensive, the need for good management has become even more important. The strengthening of our corporate staff that began in the fall of 1968 has continued with the latest addition of Stanley F. Whittle to the position of Group Vice-President in charge of the Advertising & Communications and Leisure Time Divisions.

The decline in our first quarter earnings from $438,000 in 1969 to $127,000 for 1970 is primarily attributable to a reduction in sales and one time costs incurred by the Home Improvements Division in changing to our new carpet supplier. All conversion and transition expenses have been absorbed and written off against current operating results.

The new carpet mill commenced production in April and improved results in the Home Improvements Division are expected in the second half of 1970 when full production is achieved.

The first quarter is traditionally one of low earnings for the Company and is not indicative of the year's expectations. The first quarter results do not include any earnings from the Company's recent investment in Maple Leaf Mills Limited.

The Company's objectives are to build a strong Canadian corporation in the manufacturing, consumer goods and services fields having above average growth potential and at the same time to have a business mix that is soundly balanced between stability and growth.

We are moving forward in the 1970's continuing to believe that people are our most important asset. We enter the new decade with a substantially improved asset base on which to continue to build the Company.

On behalf of the Board of Directors,

James A. Pattison
Chairman of the Board

Ross J. Turner
President

May 15, 1970

Rapport a nos actionnaires et employes

En 1969, les ventes de votre Compagnie, son revenu net et ses gains par action ont atteint leur plus haut niveau.

Les ventes et le revenu d'exploitation ont augmenté de 27% à $159 millions en 1969, comparativement à $126 millions en 1968. Les gains nets consolidés se sont chiffrés par $4,560,000, une amélioration de 27% sur les $3,582,000 rapportés pour 1968, et les gains par action se sont accrus de 13% à 66c en 1969 par rapport à 58c en 1968.

Durant la période qui s'est écoulée depuis notre dernier Rapport Annuel, il s'est produit dans le monde des changements considérables qui ont eu des répercussions sur votre Compagnie. Parmi les pires épreuves, mentionnons que le marché de la Bourse a subi sa baisse la plus accentuée depuis les années '30 et que nos propres actions ont subi une baisse appréciable en valeur boursière.

La vigueur financière et la capacité de gain de votre Compagnie ont été clairement démontrées par ses accomplissements au cours de l'année écoulée, durant laquelle, pour chaque action ordinaire, la valeur aux livres a augmenté à $3.98, les gains à 66c et le volume d'encaisse à $1.06. Au cours des quatre dernières années, notre taux composé de croissance interne, en gains par action, a été de 33%; notre actif total a maintenant atteint $93 millions, et l'équité des actionnaires, $27 millions, tandis que le rendement sur l'équité montait à 19%. Notre situation en tant qu'une des entreprises industrielles d'envergure qui contribuent à la croissance de l'économie canadienne, s'est appréciablement améliorée comme le démontre l'augmentation de nos ventes à $159 millions. Ces facteurs illustrent bien la vigueur de votre Compagnie, vigueur que ne pourraient peut-être pas refléter les niveaux présents du marché.

Un des développements significatifs de 1969 fut l'investissement considérable de votre Compagnie dans la firme Maple Leaf Mills Limited. Cette firme est une des principales entreprises canadiennes intégrée dans l'alimentation et ses produits desservent les marchés stratégiques du Canada et la population croissante de l'univers. Bien que Maple Leaf n'ait pas affiché la croissance interne qui, jusqu'à maintenant, a été une exigence primordiale dans le programme d'expansion Neonex, nous croyons que des opportunités de croissance existent réellement au sein d'une compagnie possédant les actifs, la valeur nette vigoureuse et le record passé de gains de Maple Leaf Mills.

Votre Compagnie a investi approximativement $6.5 millions dans des dépenses de capital en 1969, dont $3.2 millions ont été dépensés pour entretenir et améliorer l'usine et l'outillage actuels de la Compagnie, et $3.3 millions ont été investis à nos fins d'expansion sur de nouveaux marchés et en des occasions de profit.

En 1969, six de nos sept divisions ont enregistré des gains appréciables à la fois dans leurs ventes et leurs profits. La seule exception à notre marche ascendante fut Imbrex Limitée, notre filiale dans le domaine des tapis, qui a subi une baisse appréciable de ses revenus et de ses gains à cause de l'expiration, en 1969, de sa franchise en tant que distributeur de son principal fournisseur.

Durant la même période, votre Compagnie a entrepris la construction d'une importante fabrique de tapis houppés (tufted) dans le Québec, une entreprise conjointe avec la firme Bigelow-Sanford Inc., des Etats-Unis, un des plus importants fabricants de tapis au monde. Cette nouvelle fabrique, nommée Bigelow Canada Ltée, assure un approvisionnement en produits de qualité, à des prix concurrentiels, dans une industrie qui a joui d'une enthousiasmante croissance de marché.

En 1969, votre Compagnie s'est aussi engagée d'importance dans le domaine de la construction modulaire, s'établissant par le fait même comme l'une des plus importantes compagnies du Canada dans l'industrie à expansion rapide des abris. Neonex a aussi prolongé ses routes de transport en 1969, en fournissant un service de transport de Montréal à Vancouver, essentiel au mouvement des produits de consommation, en même temps que ses propres produits manufacturés d'un bout à l'autre du pays.

A mesure que s'accroissait le coût du capital, il devenait de plus en plus important d'avoir une gérance hautement qualifiée. Le renforcement de notre personnel corporatif, commencé à l'automne 1968, s'est poursuivi avec la toute récente addition de Stanley F. Whittle, nommé au poste de vice-président de groupe, responsable des divisions "Publicité et Communications" et "Loisirs".

Le fléchissement de nos gains durant le premier trimestre de $438,000 en 1969 à $127,000 en 1970, est d'abord attribuable à une diminution des ventes et aux frais encourus par notre division de rénovation domiciliaire durant le changement qui nous a valu un nouveau fournisseur de tapis. Toutes les dépenses de conversion et de transition ont été absorbées et amorties à même le produit de l'exploitation courante.

La nouvelle fabrique de tapis a inauguré sa production en avril et nous anticipons des résultats améliorés dans notre division de rénovation domiciliaire durant le second semestre de 1970, alors que l'usine atteindra sa pleine capacité de production.

Le premier trimestre est traditionnellement une période de faibles gains pour la Compagnie et ne reflète pas les perspectives pour l'année. Les résultats rapportés pour le premier trimestre ne comprennent aucuns gains découlant de l'investissement récent de la Compagnie dans Maple Leaf Mills Limited.

Les objectifs de la Compagnie sont d'édifier une puissante corporation canadienne dans les domaines de la fabrication, des produits de consommation et des services, une entreprise ayant des possibilités de croissance au-dessus de la moyenne, et en même temps disposer d'une diversification d'affaires sainement équilibrée entre la stabilité et l'expansion.

Nous nous engageons dans les années 1970 en continuant de croire que notre plus important actif réside dans l'être humain. Enfin, nous entrons dans cette nouvelle décennie avec un actif de base fort amélioré nous permettant de continuer à édifier la Compagnie.

Au nom du Conseil d'Administration,

Pattison

James A. Pattison
Président du Conseil.

Ross J. Turner
Président.

le 15 mai 1970

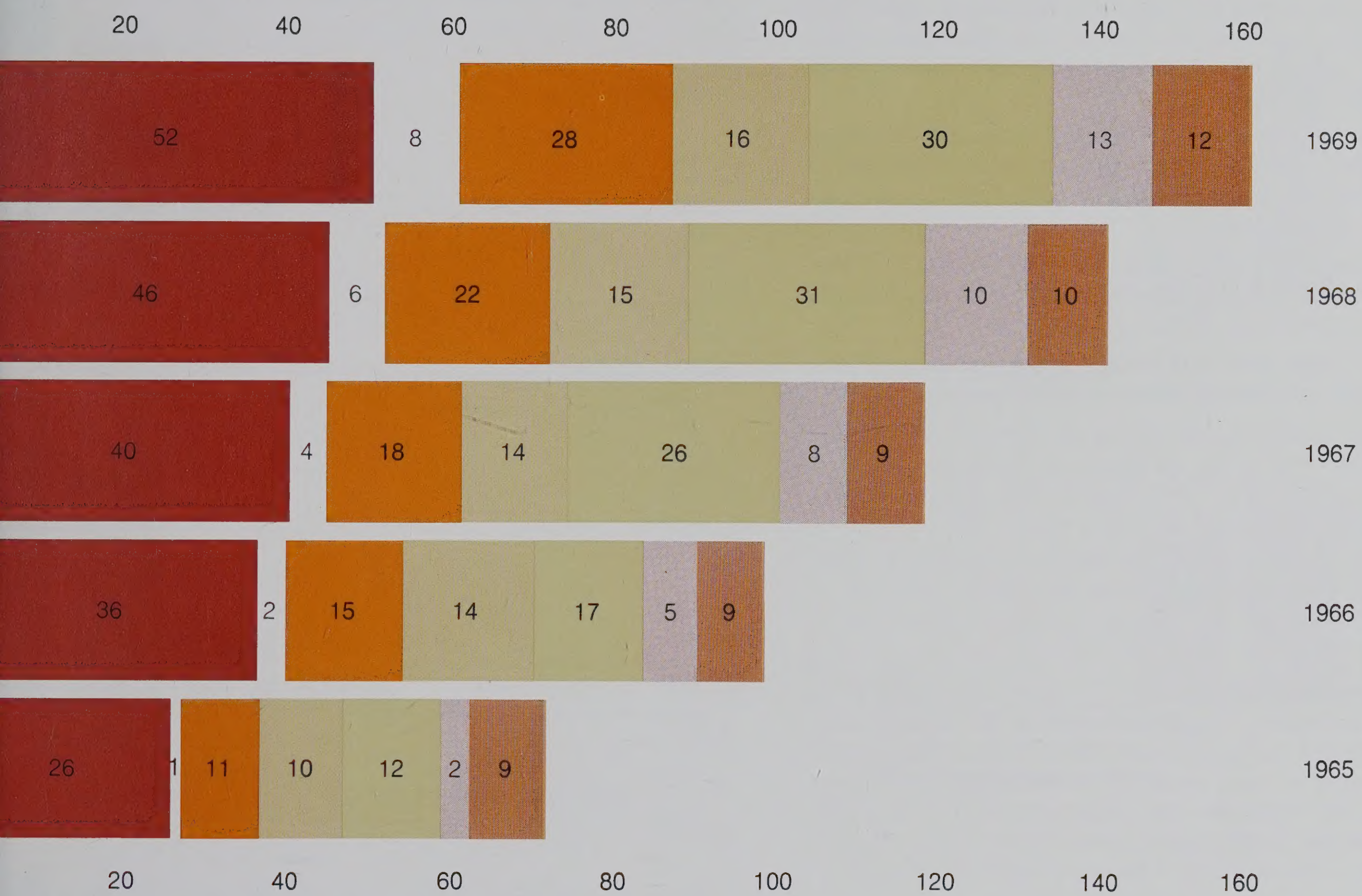
Financial Review

Earnings Contribution by Division (Thousands of Dollars)

In this annual report we have presented a visual and written synopsis of both financial and operating data of the Company and its divisions.

All but one of these divisions have recorded year-to-year gains in both sales and earnings contribution. Divisional performance is reviewed in subsequent sections of this report where charts show the trends in both sales and earnings contributions.

Restated figures in the Company's financial statements and historical summary include the operations of all acquired companies accounted for as poolings of interests. All divisional data in this report are on this basis so that prior years are comparable to 1969. This presentation emphasizes the internal growth in each of our market areas.



Net Sales by Division (Millions of Dollars)

Food Services

Leisure Time

Consumer Goods

Transportation Services

Home Improvements

Shelter

Advertising & Communications

Divisional sales figures include operating revenue for those divisions where it applies. Divisional earnings represent the earnings contribution of a division before allocation of corporate costs (and, in any applicable prior years, before extraordinary items and minority interest).

The coloured chart on this page highlights the growth and stresses the diversification of the Company's markets which reduces the effect of fluctuations in narrow segments of the economy. Considerable strength is gained from the fact that both sales and earnings are well spread among diversified industries with high growth potential.

Neonex has a high concentration of its total sales and revenue in Western Canada. British Columbia and Alberta combined is a major and rapidly growing area in Canada, and this has been a factor in the Company's rapid growth. Most divisions of the Company have expanded activities in the large populated markets of Ontario and Quebec, and this is expected to provide significant new opportunities for profitable growth. (See page 19)

1969 Highlights

The following comparative highlights and charts relate 1969 data to that previously reported to our shareholders and, therefore, reflect the changes arising both from internal growth and from acquisitions.

Net sales and operating revenue reached $159 million in 1969. This is a 27% increase over the $126 million in 1968 and represents 115% compound growth over the past four years.

Net earnings increased 27% to $4,560,000 in 1969. Earnings per share were 66c up 13% over last year and reflect a four year compound growth of 33%.

Total assets were $93 million at year end, an increase of 64% over the $57 million reported last year.

Shareholders' equity increased 26% to almost $27 million. This is the equivalent of $3.98 per share up 12% over the $3.56 per share in 1968. Return on equity was 19% compared with the previous 18%.

Working capital increased from $10.5 million to $18.1 million, while the current ratio went from 1.4 to 1.6.

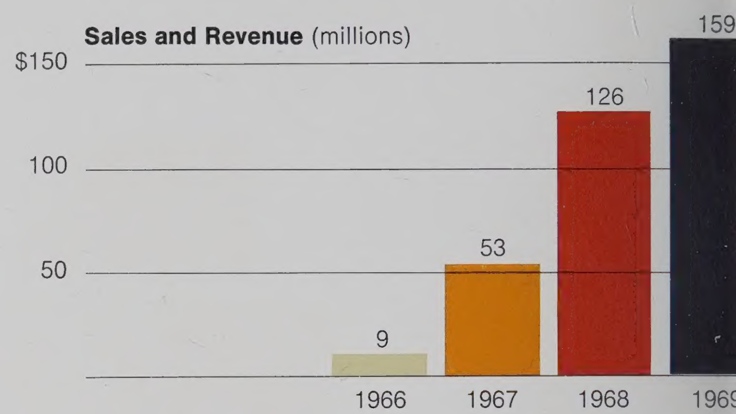
Capital Expenditures

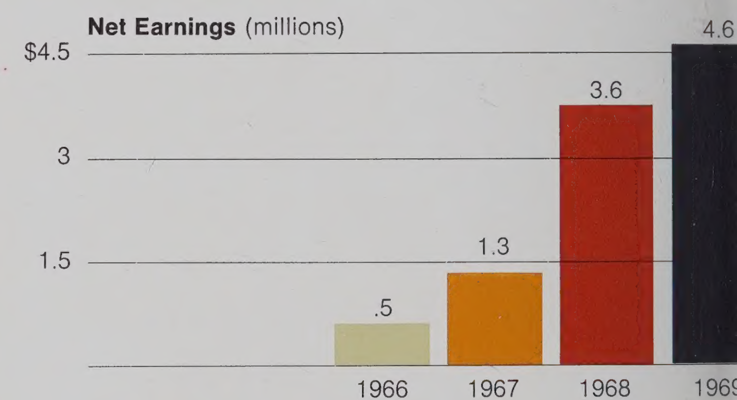
Capital expenditures in 1969 amounted to $6.5 million compared with $2.6 million last year. The principal expenditures this year were for plant expansion in the Leisure and Shelter Divisions, an upgrading and expansion of both fleet and facilities of the Transportation Division, and major improvements and store additions in the Food Services Division.

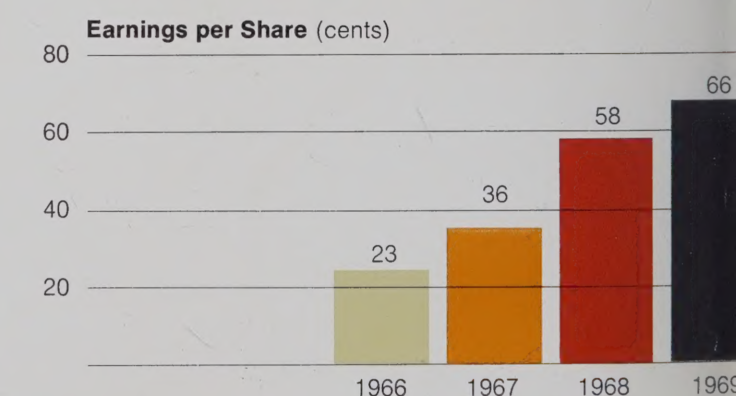
Each division develops a carefully conceived annual marketing plan which is critically analyzed by corporate management. Related significant capital expenditure proposals are also carefully reviewed — to determine that they are adequately supported by market surveys, cost and pay back projections and discounted cash flow calculations. This combined review permits the Company to direct its capital resources into those selected industries and products which are in accord with its long term objectives.

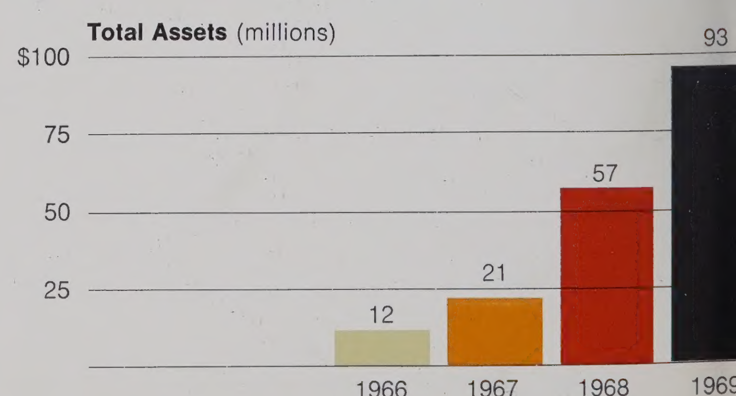
Maple Leaf Mills Limited

In the latter part of December 1969, the Company entered into agreements and transactions which will result in a 67.6% ownership in the common shares of Maple Leaf Mills Limited. This is the most important investment made to date by your Company.









We have set forth below summary financial statements of Maple Leaf Mills (at December 31, to conform to the Neonex year end).

Consolidated Balance Sheet
(dollars in thousands)

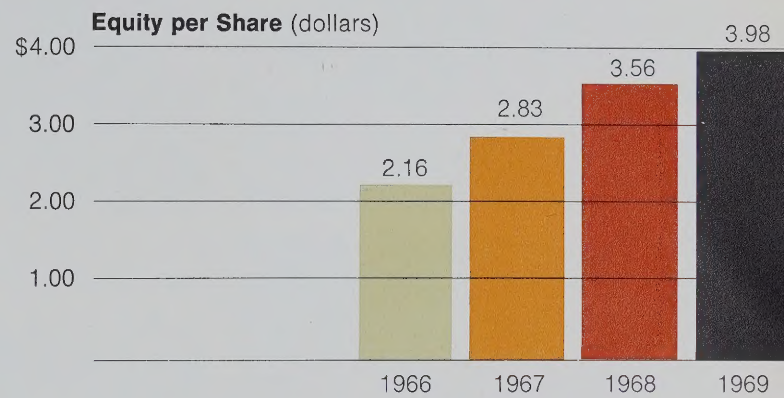
	December 31, 1969
Assets	
Cash and short term securities	$ 5,845
Accounts receivable	29,235
Inventories	53,223
Investments	8,636
Property, plant and equipment — net	38,863
Other	2,017
	$137,819
Liabilities and Shareholders' Equity	
Banks	$ 52,262
Other short term payables	14,659
Long term debt	15,174
Deferred taxes and minority interest	10,476
Shareholders' equity	45,248
	$137,819

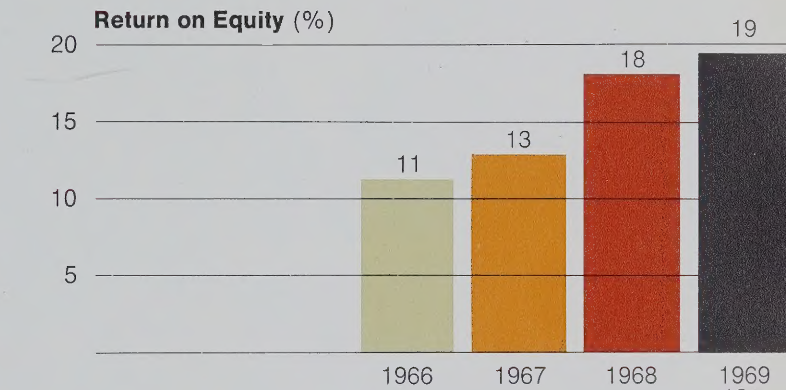
Consolidated Statement of Earnings
(dollars in thousands)

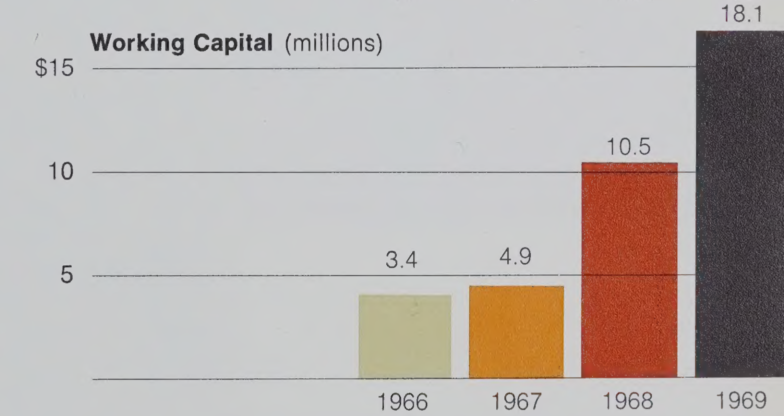
	Period ended December 31, 1969		1968
	12 months	9 months	9 months
Income			
Sales and revenue	$ 203,315	154,176	154,827
Other income	1,814	1,410	1,162
	205,129	155,586	155,989
Expenses			
Cost of sales and operating expenses	172,606	130,474	129,536
Selling and administrative expenses	18,451	14,269	13,909
Depreciation	3,728	2,752	2,916
Interest expense	3,607	2,740	2,312
Income taxes	3,555	2,804	3,850
Minority interest	335	225	518
	202,282	153,264	153,041
	2,847	2,322	2,948
Extraordinary Credits	195	195	229
Net Earnings	$ 3,042	2,517	3,177

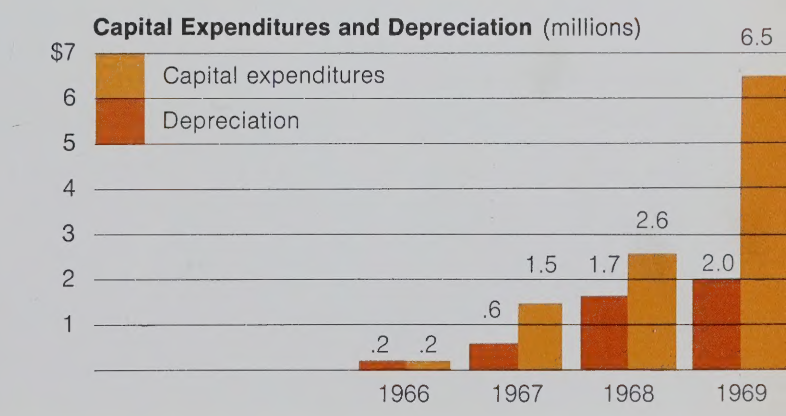
The historical summary of key financial and statistical data is on the following page. The financial statements and the auditors' report commence on page 40.

Griffith M. Marshall, C.A.,
Vice-President Finance and Administration









Historical Summary (dollars in thousands except amounts per share)

		As Reported				Restated for Poolings			
		1969	1968	1967	1966	1969	1968	1967	1966
For the year									
Net sales and operating revenue	$	159,301	125,672	53,292	8,677	159,301	140,736	118,768	98,342
Earnings before extraordinary items	$	4,560	3,582	1,263	507	4,560	3,928	3,199	2,751
Net earnings	$	4,560	3,582	1,263	507	4,560	3,928	3,375	2,751
Cash flow	$	7,097	5,380	1,842	804	7,097	5,633	5,291	4,385
Dividends paid by Company	$	325	205	442	442	325	205	442	442
Return on equity		19%	18%	13%	11%	19%	19%	19%	18%
Capital expenditures	$	6,502	2,569	1,505	165	6,502	3,750	*	*
Per common share									
Net earnings									
Canadian —basic	$	.68	.60	.36	.23	.68	.59	.51	.43
—fully diluted	$	.61	.58	.36	.23	.61	.57	.49	.41
United States—primary	$	.66	.58	.36	.23	.66	.57	.49	.41
—fully diluted	$	.61	.58	.36	.23	.61	.57	.49	.41
Cash flow	$	1.06	.90	.53	.36	1.06	.85	.80	.68
Dividends paid by Company	$	.05	.05	.20	.20	.05	.05	.20	.20
Equity	$	3.98	3.56	2.83	2.16	3.98	3.38	2.86	2.48
Year end position									
Total assets	$	93,019	56,565	21,012	12,081	93,019	63,876	54,493	45,077
Working capital	$	18,076	10,461	4,927	3,445	18,076	11,041	9,683	8,614
Current ratio		1.6	1.4	2.0	3.2	1.6	1.4	1.5	1.6
Shareholders' equity	$	26,877	21,343	9,953	4,769	26,877	22,534	18,948	16,005
Number of employees		3,936	3,131	1,471	516				
Number of shareholders		4,050	2,075	2,432	2,642				

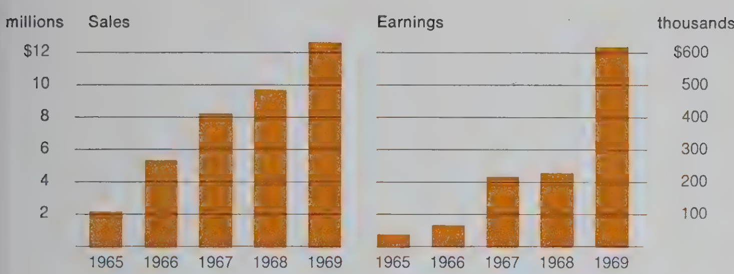
*not available

Corporate and Divisional management in action.

Shelter Division main manufacturing facilities in Calgary.

Shelter

	1969		1968		Change
	Amount (thousands)	Percent of Total	Amount (thousands)	Percent of Total	Percent
Sales	$12,838	8%	$9,941	7%	+29%
Earnings	609	13	244	6	+150



There were many factors which contributed to the decision of your Company to enter the high growth potential offered by providing low cost shelter. There is no question that providing adequate shelter at prices within the reach of a growing population is one of today's most serious challenges. The mobile home is an accepted approach to providing shelter in Canada and there are indications that looking to the future this form of housing will supply an increasing proportion of the total shelter market.

Assembly line fabrication of wall section for a mobile home under construction in the Calgary plant.

Insulation application for a mobile home.

The management team checks final specifications on the first 14 foot mobile home unit to come off the assembly line.

Architect's concept of the Highwoods
—one of the first mobile home communities developed by
the Neonex Shelter Division.
The Highwoods is located near Calgary, Alberta.

The Mayor officially
opens the Highwoods
mobile home community.

Children play in the rapidly expanding
Highwoods mobile home community.

The Federal Government acknowledges these needs and the findings of its Task Force on Housing highlighted in very positive terms the requirements for adequate housing to be placed within the means of the average Canadian wage earner. On a more current basis the 1970 budget of the Central Mortgage and Housing Corporation makes an allocation of $200 million to finance new concepts in providing housing for low income families. Manufacturing techniques on assembly line basis under controlled conditions to maximize efficiencies in material, labour and supervision, as used by mobile home manufacturers, makes the mobile home highly attractive in this market.

Your Company felt that it should be participating in this industry and brought into its organization in April, 1969 United Mobile Homes, a manufacturer of mobile homes which also distributes, retails and services mobile homes and holiday trailers. The Company's five year growth performance was attractive. Sales have increased from approximately $2.1 million in 1965 to $12.8 million in 1969. Earnings over the same period increased from $31,000 to $609,000. United increased its sales in 1969 an impressive 29% over the previous year. The profit increase of $365,000 to $609,000 in 1969 indicates a highly satisfactory increase of 150%.

United had a 62,000 sq. ft. manufacturing plant located in Calgary. After the development of its marketing objectives and program for 1970, a 22,000 sq. ft. extension to provide an additional production line was started in the fall of 1969 and was completed early in the current year. Other related expansion completed on the same site includes an 8,000 sq. ft. service bay and 1,900 sq. ft. of office space. At present we have 28 outlets in Western Canada, 22 of which are our own retail dealers and six are independent.

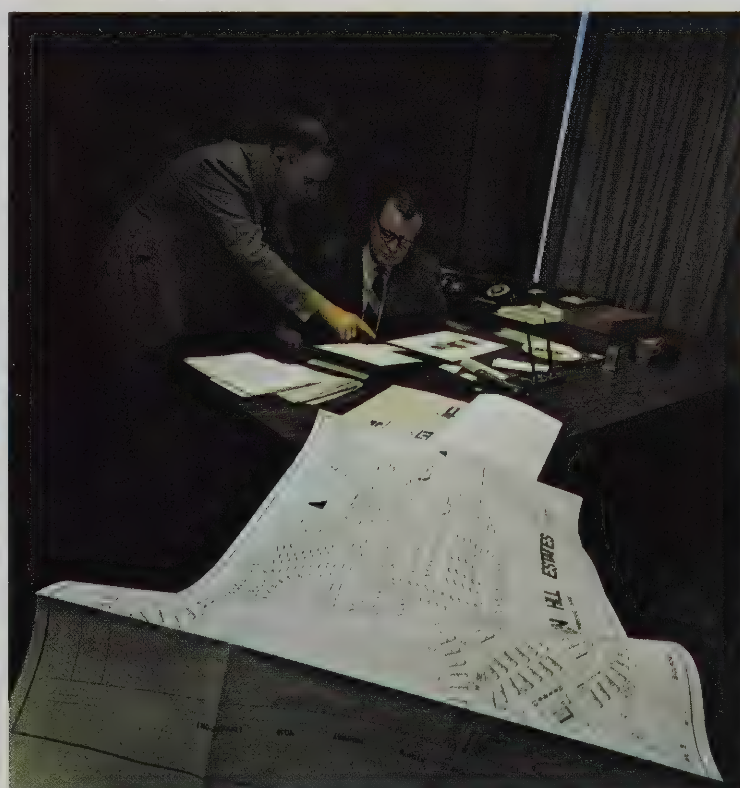
Interior of a mobile home,
demonstrating spacious accommodation and attractive decor.

The corporate office of the Shelter Division was centralized in one location in Calgary and management strengthened to support the expanded operation. The Company recently appointed an Ontario Regional Manager who will be carrying out the first phase of its program in the eastern market by the establishment of Company owned dealer outlets.

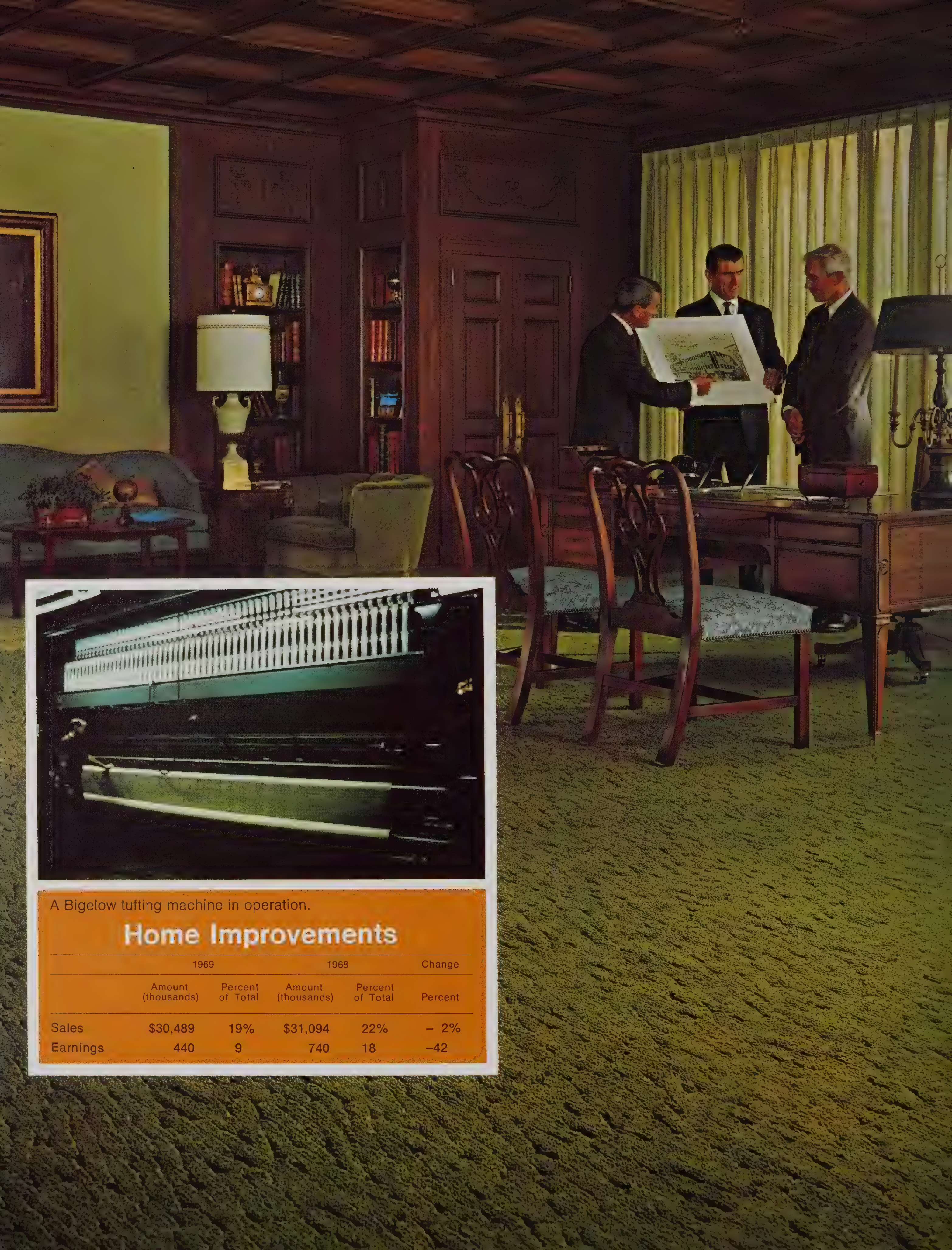
In the year under review, the Company started a mobile home park program which will assist in the marketing of the Company products. The degree of involvement on this program will be limited by the availability of financing at acceptable rates.

With the base we have established in the shelter industry and with the expansion already initiated, your Company looks optimistically ahead to aggressively participating in the growth potential of this market.

Neonex Shelter Division management check details of a future mobile home community development.



Potential mobile home owners inspect available models.



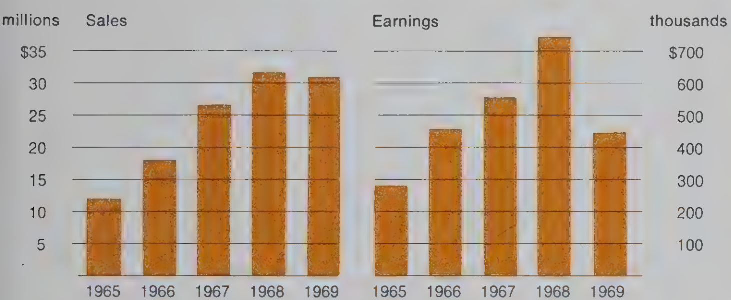
A Bigelow tufting machine in operation.

Home Improvements

	1969		1968		Change
	Amount (thousands)	Percent of Total	Amount (thousands)	Percent of Total	Percent
Sales	$30,489	19%	$31,094	22%	– 2%
Earnings	440	9	740	18	–42

Interior view of the Bigelow Plant, showing manufacturing equipment.

President of Bigelow-Sanford Inc. (left), and President of Bigelow Canada Ltd.



During 1969 this division suffered a decline in both sales and earnings. Sales dropped approximately $600,000 to $30.5 million, a decline of approximately 2% from the previous year. Earnings for the same period declined $300,000 to $440,000, a significant reduction. The earnings performance for this division is after absorbing all costs incurred in changing to its own line of manufactured carpet products.

Early in the year, Imbrex Limited and its major carpet supplier agreed to terminate the exclusive agreement which had been in force for several years. The effective date of this termination was August, 1969. In June, 1969, Neonex signed an agreement with Bigelow-Sanford, Inc., a major U.S. carpet manufacturer to establish a new corporation, Bigelow Canada Ltd., equally owned by Neonex and Bigelow-Sanford, to manufacture tufted carpets in Canada. Construction commenced on this 250,000 sq. ft. plant in the

Consumer demand for carpeting is increasing each year. Uses have expanded to kitchens, bathrooms, patios, and other areas throughout the home.

fall of last year on a 70 acre site in St. Agathe des Monts, Que. Manufacture of carpets at this plant has already commenced. The plant's production capacity is approximately 5 million sq. yds. per year. It is significant to mention that the plant was completed on schedule. The cost of constructing and equipping this modern plant was $6.8 million, of which approximately $1.4 million is covered by a non-repayable grant from the Canadian Government.

Since the termination of our previous arrangements, Bigelow-Sanford undertook to supply the Company with carpet until the new plant could provide the product required. Initial production now taking place includes Bigelow U.S. styles already marketed in Canada since August of last year, plus a range of new styles especially developed for our Canadian market. Bigelow's wide experience, styling facilities and product development laboratories are being fully utilized to ensure product leadership by Bigelow in the Canadian market.

Carpeting is finding widespread useage in business offices, apartments, hospitals and other public structures such as airports.

The Neonex Home Improvements Division, with 14 warehouse locations across the country, is a nationwide supplier not only of carpeting but of resilient floor coverings.

Your Company believes that this joint venture is an important step forward. We are now able to participate in the carpet industry at the manufacturing level as well as being a major distributor.

This industry has enjoyed exciting demand. Architects and builders in many instances now specify carpet in preference to hardwood and other forms of flooring. Carpeting of various kinds is now to be found in every room of the house, including kitchen, bathroom and outdoor patio areas. New housing and apartment developments and the increasing use of carpet in schools and hospitals and other institutions allow this industry to project an attractive annual growth rate of approximately 15%. While your Company strongly believes it has established a valuable asset it is important to note that the market will have to absorb the impact of a new major manufacturing facility.

Your Company made another important agreement which should help to consolidate this division's strong position as a major floor covering distributor. Allen Industries Ltd., a major U.S. carpet undercushion manufacturer and the Company entered into a long-term agreement whereby Allen Industries will manufacture and we will distribute the output of a new plant to be constructed in Canada. In November, 1969, Allen manufactured undercushion was introduced to Canadian retailers through our distribution channels. This interim arrangement allows us to offer this product until the new manufacturing plant under construction in Hamilton, Ontario can supply the company its rubber undercushion requirements. Completion of the plant is expected in August, 1970.

The Neonex Home Improvements management in Montreal discusses a major merchandise promotion program.

The large consumer demand for carpeting in Canada will be met by the company's new manufacturing facilities located just outside Montreal.

The company's paint production continues to grow at a rate exceeding that for the industry in general.

Industrial paint application is another fast-growing market for your company. Heavy machinery, highway paint marks, and public institutions use large quantities.

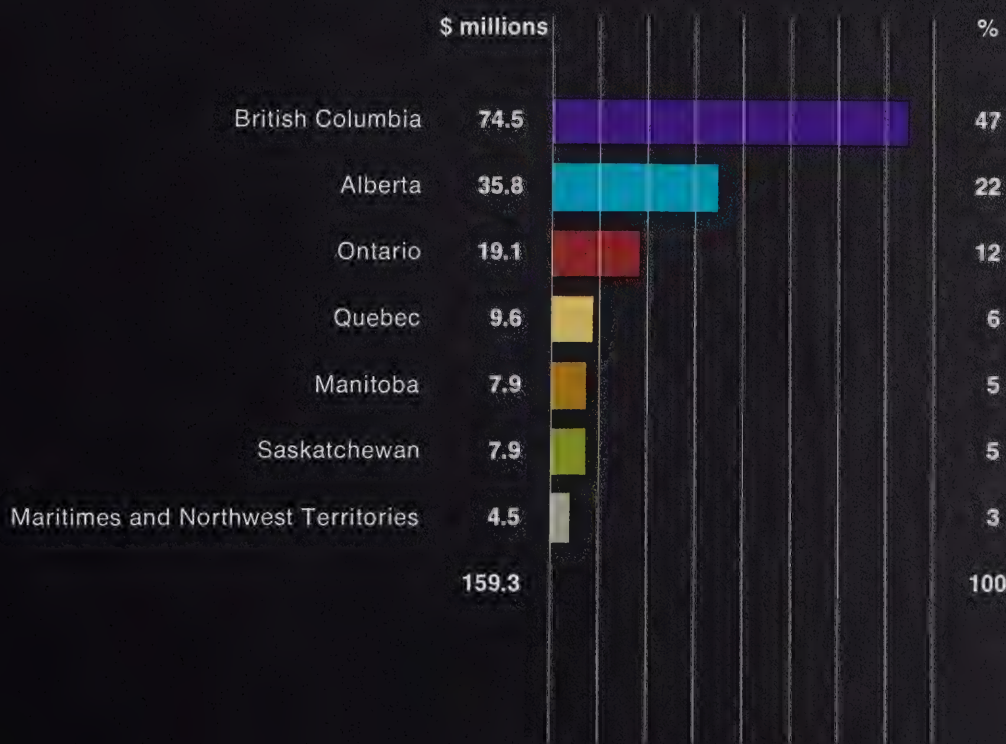
Management checks one of the latest additions to your company's list of independent dealers now totalling more than 850 across Canada.

Your Company believes that the full beneficial effect of these two important agreements with Bigelow-Sanford, Inc. and Allen Industries Ltd. will not be felt until 1971.

Your Company's Northern Paint subsidiary has continued to do well. In response to the need for increased efficiency, the company's production facilities were modernized with the assistance of a Manitoba Government Grant.

Our production includes a full range of industrial paints, as well as a full line of brand name quality paints in both oils and latex bases. We are also the exclusive manufacturer of Tim-Ber-Lox wood finishes. These products are marketed through a network of 850 dealers in British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. In addition we have 12 exclusive distributor stores in major centers, from London, Ontario to Vancouver, B.C. The marketing base was improved and expanded with the addition of company outlets in 1969 as well as the purchase of a major independent dealer outlet.

Neonex 1969 Sales by Province

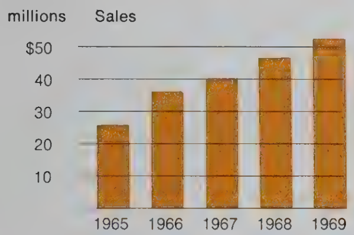


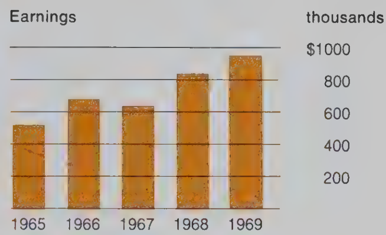
Food Services management checks an advertising campaign.

Food Services

	1969		1968		Change
	Amount (thousands)	Percent of Total	Amount (thousands)	Percent of Total	Percent
Sales	$51,814	33%	$46,064	33%	+12%
Earnings	950	19	827	20	+15

Neonex opened new modern stores at Prince George, Fernie, Williams Lake, and Burnaby, B.C. in the year under review.





Over a ten year period from 1959 to 1968, Overwaitea Limited's sales record compares very favorably with the food chain industry in Canada and British Columbia. During this period the compound growth rate for Canada was approximately 7%. For British Columbia, which is the market in which the company competes, the food chain industry sales performance was approximately 10½ % while our compound growth rate during the same period was approximately 13%.

During 1969, this division realized the highest level of sales and profit in its 55 year history. Sales increased to $51.8 million, an increase of 12% over the sales recorded for the previous year. Earnings increased to $950,000, a gain of $123,000 over 1968, an increase of 15%.

The division has been consistently able to demonstrate its ability to maintain an impressive growth record over a period of years. Marketing philosophy and procedures have had much to do with this performance. We have elected to concentrate in the rural areas of British Columbia and on the periphery of British Columbia's largest center of population. In these communities we have extended our efforts to locate modern, well stocked, expertly staffed stores offering high quality goods and service.

The program of new store locations and store renovations was continued in 1969 with new stores opening in Prince George, Fernie and Williams Lake and a Prairie Market opening in Burnaby. Several major store renovations were also carried out during this period. With the increased volume of sales and the anticipated continuation of this program, plans were laid to enlarge the Company's main warehouse in Burnaby by approximately one third and to increase the loading and shipping facilities at this location. The program carried out in 1969 will allow the division to continue to grow and maintain its established trend. Approximately $2.3 million was spent on capital expenditures during the year of which $950,000 was for the expansion of new facilities and the balance for renovations, replacement of outdated facilities and the purchase of previously leased outlets.

The Company has continued its established pattern in 1970 and has identified its current requirements which Neonex is confident will allow this division to achieve its anticipated results.

Neonex doubled its camping trailer manufacturing facilities.

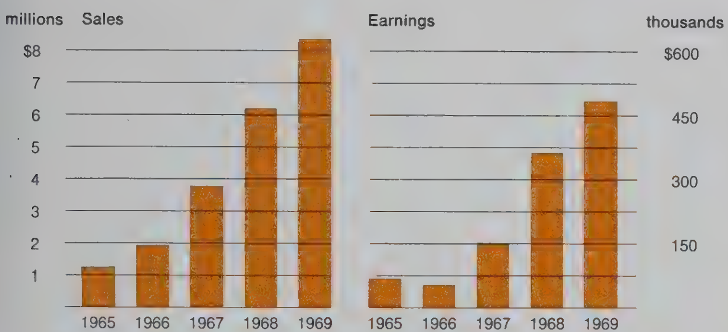
Leisure Time

	1969		1968		Change
	Amount (thousands)	Percent of Total	Amount (thousands)	Percent of Total	Percent
Sales	$8,444	5%	$6,026	4%	+40%
Earnings	485	10	340	8	+43

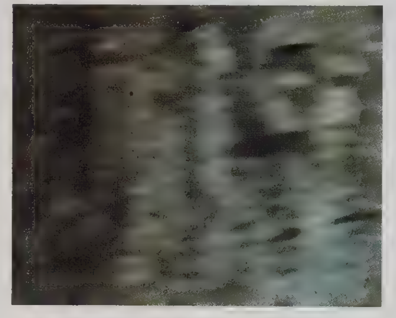
In keeping with your company's policy of maximum internal growth, Neonex has also doubled its travel trailer manufacturing facilities at Red Deer.

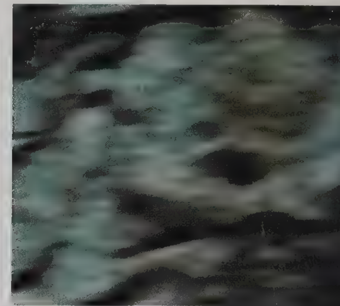
Example of the range of travel trailer and truck camper models produced by the Leisure Time Division.

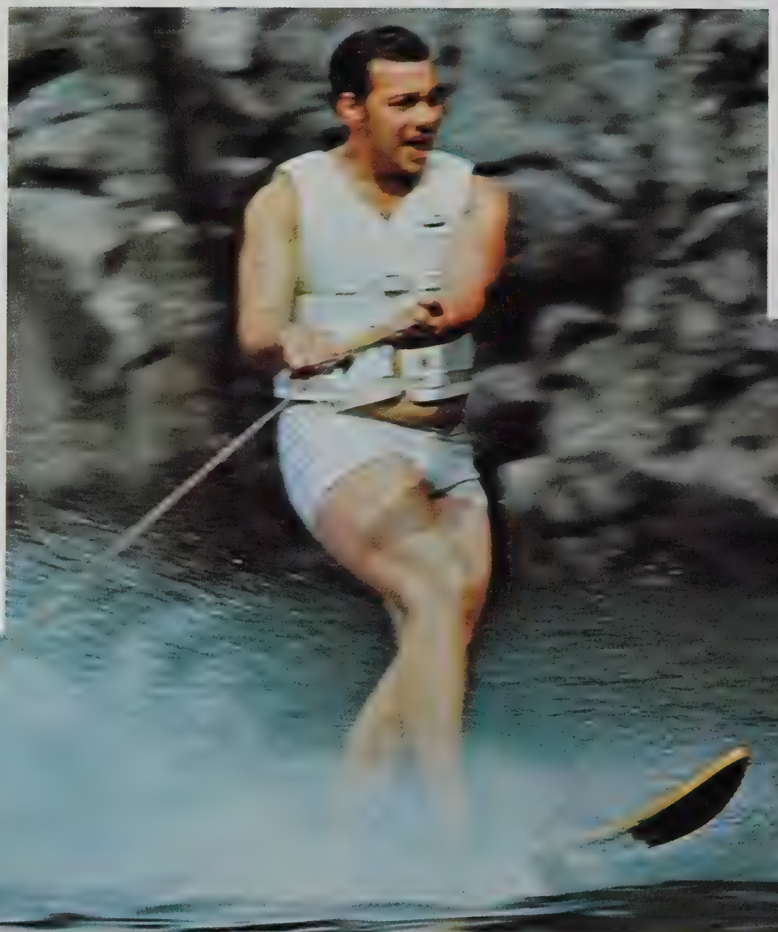
Leisure Time management division meeting reviews current market conditions.



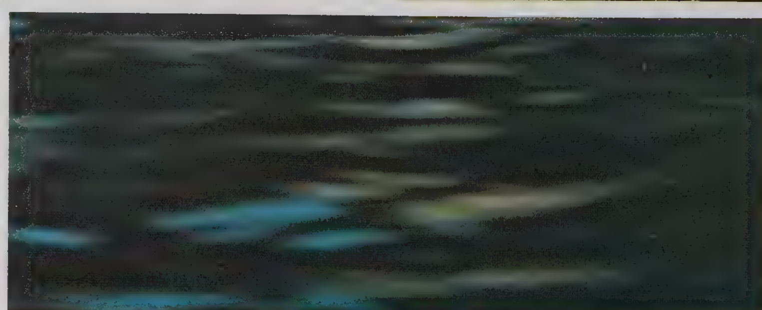
Social changes and legislation over the past decade in both the United States and Canada has produced a more affluent society. This society has had more time available to enjoy and participate in leisure and recreational activities. This trend is expected to go on and the continued rise of discretionary income available for such purposes has been highlighted in various reportings. With this direction well established, Neonex has accelerated its program in this market.

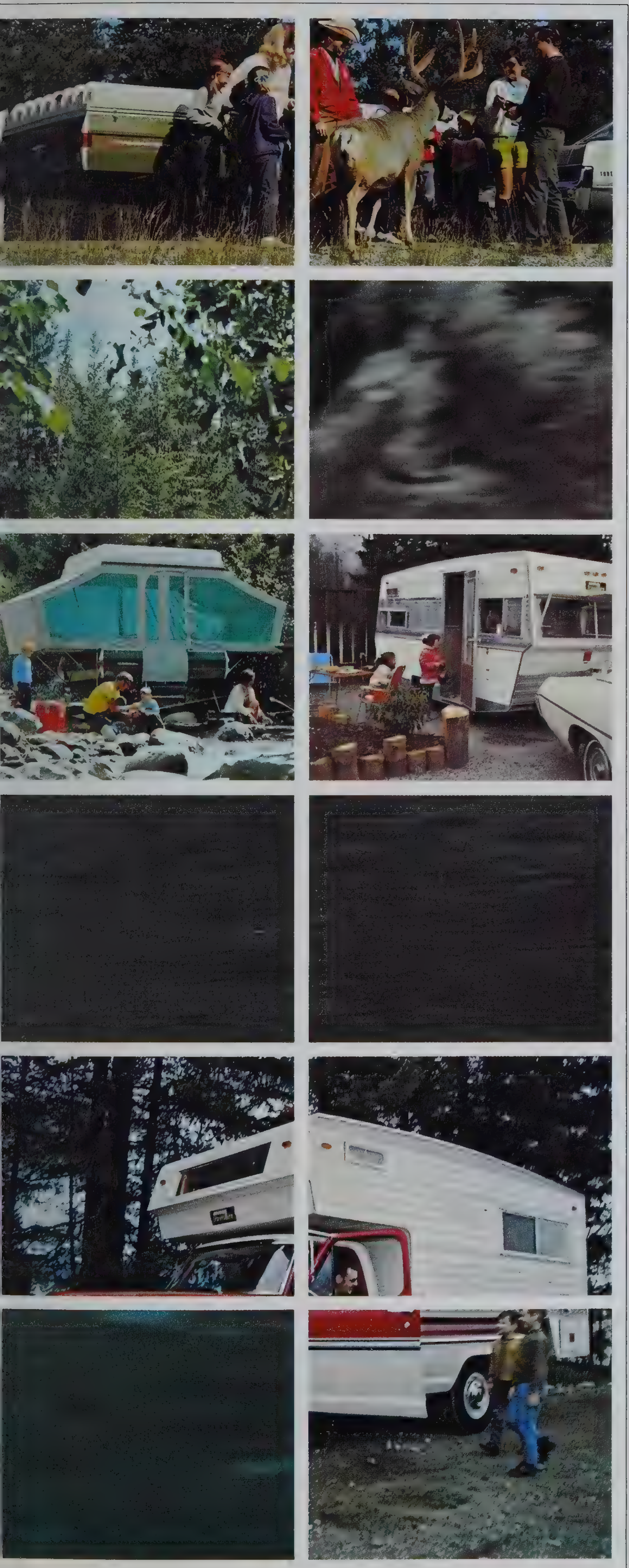






Neonex Leisure Time Division distributes a wide range of camping and sporting equipment through its network of dealers across the country.





Your Company's program is to develop and offer to a dealer network a wide range of quality products competitively priced. In October 1969, Neonex brought into the Leisure Time group Otto Mfg. Enterprises Ltd., of Edmonton, Alberta and in December 1969, Triple-E Mfg. Inc. Ltd. of Winkler, Manitoba. These operations considerably broadened your Company's product lines and gives the dealers a wide choice of product in travel trailers, truck campers and camper trailers.

In addition to these operations, your Company studied other manufacturing facilities and embarked immediately upon an expansion program to give the Company well located regional manufacturing capabilities. The division's Travelaire plant at Red Deer was doubled in size to 69,000 sq. ft. and this addition was completed in early 1970. A 17,000 sq. ft. undercarriage plant was erected on the same site and will soon be in full production. This undercarriage plant will allow your Company to manufacture for its own account as opposed to buying this assembly from outside sources.

To meet the demand of a growing market in Eastern Canada, we commenced construction of a 45,000 sq. ft. Travelaire plant in Arnprior, Ontario. This plant will be in production very shortly. This plant was partially financed with the assistance of the Ontario Government grant program and will give your Company a valuable asset in a growing area. To meet the demand for your Company's product we will continue to operate our existing travel trailer plant in Woodstock, Ontario.

Immediately following the acquisition of a hard-top camper trailer manufacturing plant in Edmonton, Neonex commenced construction of an addition to provide a second assembly line which is now fully operative.

The addition of these new operations to the Leisure Time group as well as the expansion carried out to date will enable this division to maintain a strong position in the industry.

The respective dealer organizations of these three companies complement each other in many ways. The hard-top camper manufacturing unit produces camper trailers ranging in price from $400 to $1,700 which are sold throughout all markets in Canada and eleven U.S. States. Our travel trailer manufacturing plant in Winkler markets its product through a network of Canadian dealers. Because of the differences in product and price, many units are sold through dealers presently carrying the popular Travelaire brand name products manufactured by Neonex.

Neonex compact trailers on display
at one of the many dealer locations
established from coast to coast.

Neonex management observing a quality control check at the travel trailer manufacturing plant at Winkler, near Winnipeg.

A Neonex Leisure Time marketing manager explains details for a Travel and Recreation Center. Several are planned for Canada. The first is in operation at Abbotsford, B.C.

In addition to building a strong dealership organization across Canada, Neonex expects to expand the retail coverage of these leisure time products through Recreational Centers and the first center has been opened near Abbotsford, B.C. These outlets will also handle the many leisure and sports items distributed by Neonex-owned Universport operating out of Montreal.

During 1969, this division recorded its most productive year in both sales and earnings. Sales reached $8.4 million, an increase of $2.4 million over 1968, or 40%; and earnings increased by 43% to $485,000. Your Company expects its expansion program, already well underway, to achieve the desired objectives for this division.

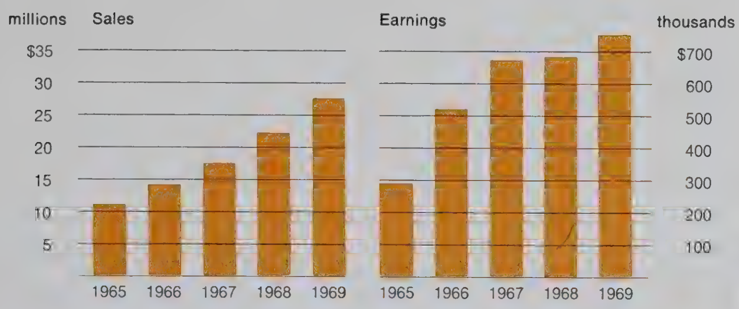
Shown is the Neonex Annual Shareholders' meeting held in Edmonton in 1969. In recognition of the province of Manitoba's Centennial Year, and that several of your Company's Manufacturing and Services Divisions are located in Manitoba . . . Neonex plans to hold its Annual Shareholders' meeting this year in Winnipeg.

Neonex directors' meetings are regularly held across the country continually reviewing operations of the Company. This meeting was held in Toronto.

One of 30,000 items photographed for mail order catalogues.

Consumer Goods

	1969		1968		Change
	Amount (thousands)	Percent of Total	Amount (thousands)	Percent of Total	Percent
Sales	$27,524	17%	$22,454	16%	+23%
Earnings	749	15	697	17	+ 7



Annual sales for the ANC Group increased 23% to $27.5 million in 1969, a gain of $5.1 million over the previous year. Earnings increased $52,000 to $749,000, an increase of 7%. Your Company feels these results were satisfactory considering the absorption of costs related to sales promotion and set-up to establish a distributor warehouse in a new market area.

We have brought to consumer goods marketing, a technique not widely practiced in Canada, but one which has been highly successful in the growth of the ANC Group.

A Neonex management tour of one of seven major wholesale warehouses.

At present, more than 450,000 customers have membership card entry to the Consumer Goods warehouses. They shop in person or by mail order catalogue.

ANC with its head office in Edmonton, operates seven distributor warehouses, one in each of the major cities in Western Canada. Each location sells a wide range of consumer merchandise at prices generally below the price for the same merchandise sold by competitors. At present there are more than 450,000 ANC registered members who, due to the rigid "closed door" policy, are the only

customers allowed into the ANC warehouses. These outlets stock more than 30,000 individual items which allows a wide selection of quality brand-name and nationally advertised merchandise. ANC members can purchase goods not only in person but by telephone or mail, making use of mail order catalogues issued in the spring and fall of each year.

In 1969 your Company added in Winnipeg a new distributor warehouse totalling 20,000 sq. ft. This facility completed the first phase of the ANC merchandising division's program which now has outlets in every major city in Western Canada.

In June, 1969 Neonex purchased the Bazaar & Novelty Co. Limited of Toronto, a major distributor of bingo supplies, carnival merchandise and premium goods. This company has recently moved into an office warehouse complex totalling 31,000 sq. ft. in Toronto. The new facilities will allow ANC's carnival division to organize more effectively in this market area. By the joining of the eastern operation with Neonex's well established western base, the ANC carnival division will now be one of the largest operations of its type in Canada.

A section of the sales outlet established by the Neonex Consumer Goods Division in Toronto.

Fast turnover items spark steady buying traffic.

Consumer Goods Division includes the distribution of leading periodicals, magazines, paperback and children's books, as well as tape decks.

In March 1969, Neonex brought into the ANC Group, Provincial News, a wholesale distributor of magazines and paperback books, serving Edmonton and the northern regions of British Columbia, Alberta, Saskatchewan, the Yukon and Northwest Territories. We hold franchise agreements with 12 publishers and sell to 1,000 retail outlets in our market areas. The rack jobbing requirements of magazines and paperbacks together with the rack jobbing of tapes and records through existing units of ANC gives this division interesting potential in this expanding field.

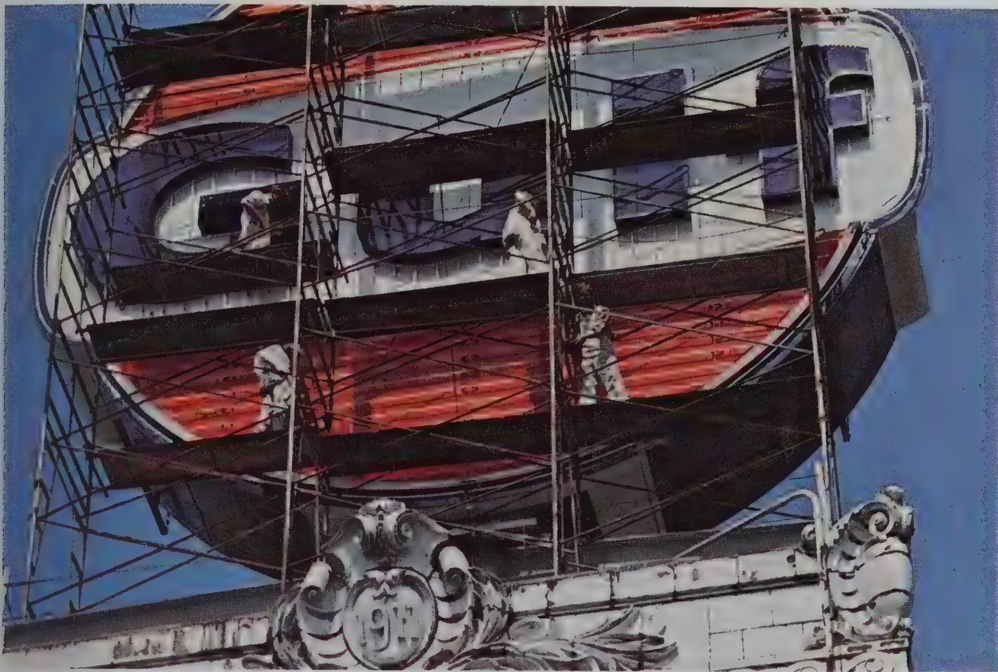
Your Company feels that the organization of the ANC Group of Companies into three main profit centers allows each operating organization to plan and control its programs to maximize the available profit potential.

Management inspects the address files of more than 1,000 distributor outlets.

A plastic-faced sign is readied for delivery.

Advertising & Communications

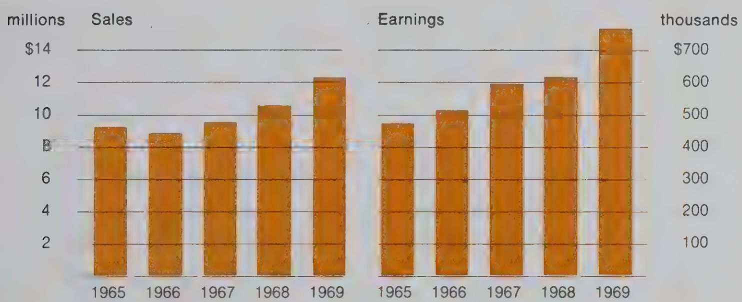
	1969		1968		Change
	Amount (thousands)	Percent of Total	Amount (thousands)	Percent of Total	Percent
Sales	$12,039	8%	$10,480	8%	+15%
Earnings	798	16	608	15	+31



Neonex Advertising and Communications Division owns and maintains 40,000 electric signs and structures across Canada —of which 80% are leased on long term contracts.

The Advertising and Communications Division has offices and manufacturing facilities in most major Canadian cities.

Customers across Canada include CP Air. This Company installation is at the Vancouver International Airport



During 1969, Neon Products recorded its greatest growth in the past ten years. Sales reached $12 million, an increase of 15% over 1968 and operating profits increased by 31%.

This growth was the result of (1) aggressive sales policies to sell and lease neon and plastic illuminated signs (2) an expanded market coverage of combined store front remodelling and signing, under the national "Face-Lift"

program and (3) an increase in billboard showings and a 200% increase of silk screen production.

The "Face-Lift" program reported last year has expanded to several market areas in Canada, and through the promotion of this concept of financing complete store front remodelling and signing, the Company has gained the support of civic groups, merchant groups, planners and legislators, as well as substantially contributing to increased sales. Through the use of audio visual programs, presentations can be made covering entire shopping areas involving one or more city blocks or entire shopping centers.

Your Company's program of updating and improving its outdoor advertising displays through the use of multi-faced posters, landscaping and structural refinements has continued at a satisfactory pace.

A Toronto sign installation erected by your Company— the nation's largest designer and lessor of electric and plastic signs.

The new store front 'face lift' modernization service pioneered by Neonex has increased revenues appreciably in 1969.

Your Company recorded its best year for outdoor posters and bulletins. Demonstrated here is an example of "in company" utilization of resources.

The Advertising and Communications Division is one of the largest suppliers of closed circuit television systems in the country. Three training program installations are shown here:

Nissan Automobile Co. (Canada) Ltd. for service training across the country.

Sun Life Assurance Company of Canada for use in corporate communications.

Neonex entered the communications field in 1969 through the acquisition of Total Video Systems.

There is little doubt that communication techniques and systems are a major force in society today and video systems have become the major communication medium in the past few years with a future beyond the imagination.

Total Video, operating from British Columbia to Manitoba, with offices in Vancouver, Calgary, Edmonton and Winnipeg, designs and supplies video closed circuit systems to educational institutions, hospitals, and to an ever increasing commercial market. The greatest growth potential of this industry is through educational channels, whether it be a school, university or industry.

The Neonex Advertising and Communications Division has experienced its substantial growth during 1969 through the ever expanding need of people and industry to communicate, whether it be through identification, advertising or distribution of visual information.

University of British Columbia for educational use.

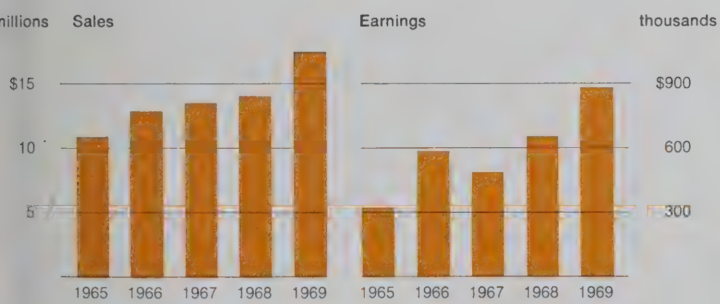
"In company" use of transport facilities.

Transportation Services

	1969		1968		Change
	Amount (thousands)	Percent of Total	Amount (thousands)	Percent of Total	Percent
Sales	$16,495	10%	$14,677	10%	+12%
Earnings	887	18	637	16	+39

In the year under review a new terminal was opened in Montreal with a handling capacity of more than 15,000,000 pounds a month.

The Director of the Eastern Transportation Division in an informal business conference with Toronto terminal management.



Transportation systems are particularly important and critical in a country as large as Canada where major centers of population are widely separated. Through the services offered by Reimer Express Lines Ltd., as a long haul inter-provincial motor carrier, the Company is able to service this need as well as providing our Company's other divisions with a reliable and efficient transportation system. Our staged program of working towards a national transportation system was one of our important objectives in the year under review.

In August, 1969, Neonex brought into the transportation group Hunt Transport Ltd. and thus extended the transportation lines westward to provide a through service for freight from the St. Lawrence to the Pacific. Prior to this investment Neonex routes terminated in Alberta. The Company now has strategically located terminals in every major city from Montreal to Vancouver. In April, 1969 your Company completed in Dorval, a suburb of Montreal, a new terminal which has a handling capacity of 15 million pounds per month. The Company also moved into larger and more modern terminal facilities in Saskatoon in October of 1969.

Nationwide control of highway equipment is maintained by the Transportation Division's communications control center network.

In 1969 transportation lines were extended from Montreal to Vancouver by interlining freight between our two transport companies.

Vancouver **Montreal**

New legislation in 1969 allowed longer trailer units to operate across Canada and we put into service a considerable number of trailer "twins". Each twin consists of 2-26′ trailers pulled by a single power unit. This method allows far greater freight capacity than does the more conventional sized trailer. The Company also expanded, as well as upgraded its fleet in order that it could continue to provide the same high degree of quality service.

Through Associated Helicopters Ltd., your Company has continued to watch activities in the far north which have been accelerated by the discovery of rich mineral resources. In anticipation of increased activity in this area, your Company established a base of operations at Inuvik in the Northwest Territories, now the focal point of transportation and communications to this expanding northern area.

In 1969 the Company, in cooperation with the Alberta Government Telephones, developed a helicopter hovering position system which is expected to revolutionize surveying in difficult terrain. We have patents pending on the system known as "Airmark". In essence, a helicopter working in combination with a ground-based television camera enables survey measurements to be taken in every kind of terrain from muskeg to thick brush. Trail and brush clearing are eliminated, as are expensive survey towers and the time factor is reduced to a fraction.

In the year under review, we continued to charter our aircraft to our established customers and enjoyed a satisfactory level of activity.

In 1969 the transportation services group spent $1.8 million on capital expenditures of which $875,000 was invested in the expansion of additional operating units and facilities and the balance was spent to replace existing equipment in order to maintain operations at a highly efficient level.

Sales for this division increased to $16.5 million, a 12% increase over the previous year. Earnings, however, increased $250,000 to a record total of $887,000, a 39% increase. The Company looks forward to this division maintaining a satisfactory growth trend.

A demonstration of the Air Mark survey positioning system on which Neonex has patent rights pending. The helicopter replaces expensive towers and works with special ground based electronic survey instruments. Great reductions of time, manpower and the elimination of trail clearing result in substantial savings.

The Division's Helicopter company draws revenue from both private and government contracts including the oil, mining, forestry and construction industries. Hydro and pipeline projects have been particularly active.

Financial Statements

In December 1969 the financial executives of all Neonex divisions across Canada assembled in Vancouver to review budgets and to plan the implementation of new management information and control systems.

Frequent meetings are held between corporate office and divisional management to review operating and financial results and to plan future strategy.

Neonex places considerable emphasis on budgetary controls and responsibility accounting at all levels. Operating results are monitored monthly, variances from budget are analyzed, early corrective action is taken when required, and action is initiated to capitalize on opportunities identified.

Neonex International Ltd.
and Subsidiaries

Consolidated Statement of Earnings Year ended December 31 (thousands of dollars)

	1969	1968 Restated	1968 Reported
Sales and Revenue			
Net sales and operating revenue	**$ 159,301**	140,736	125,672
Other income	**768**	590	465
	160,069	141,326	126,137
Costs and Expenses			
Cost of sales and operating expenses	**121,865**	108,612	96,292
Selling and administrative expenses	**25,627**	21,529	19,704
Depreciation — *Note 5*	**1,982**	1,809	1,656
Interest on long-term debt and convertible notes	**1,310**	837	723
Other interest	**625**	581	450
	151,409	133,368	118,825
Earnings Before Income Taxes	**8,660**	7,958	7,312
Income Taxes — *Note 14*	**4,100**	4,030	3,730
Net Earnings	**$ 4,560**	3,928	3,582
Earnings Per Share (cents) — *Note 15*			
Net earnings	**66c**	57c	58c
Fully diluted net earnings	**61c**	57c	58c

See notes to financial statements.

Consolidated Balance Sheet December 31 (thousands of dollars)

	1969	1968 Restated	1968 Reported
Assets			
Current Assets			
Cash	**$ 1,322**	994	929
Short-term investments, at cost approximating market — *Note 2*	**6,107**	1,313	1,313
Accounts receivable	**15,898**	14,992	13,422
Inventories — *Note 3*	**25,039**	21,032	17,911
Property held for disposal, at estimated realizable value	**1,002**	—	—
Prepaid expenses	**618**	375	321
	49,986	38,706	33,896
Investments and Other Assets			
Lease and finance contracts	**5,076**	4,254	4,254
Investments — *Note 4*	**14,570**	1,332	1,282
Deferred charges and intangibles	**3,486**	1,905	1,854
	23,132	7,491	7,390
Property, Plant and Equipment — *Note 5*	**19,901**	17,679	15,279
	$ 93,019	63,876	56,565

See notes to financial statements.

Liabilities and Shareholders' Equity

	1969	1968 Restated	1968 Reported
Current Liabilities			
Banks — *Note 6*	$ 7,170	8,469	7,701
Accounts payable and accruals	17,830	15,554	12,507
Payable on acquisition of shares — *Note 2*	5,218	—	—
Current maturities of long-term debt	1,064	1,148	1,038
Income taxes	628	2,494	2,189
	31,910	27,665	23,435
Long-Term Debt — *Note 7*	14,194	10,442	8,556
Deferred Credits — *Note 8*	3,953	3,235	3,231
Convertible Notes — *Note 9*	16,085	—	—
Shareholders' Equity			
Common shares — *Note 10*	4,840	4,727	4,699
Retained earnings — *Note 12*	22,037	17,807	16,644
	26,877	22,534	21,343
	$ 93,019	63,876	56,565

On behalf of the Board

Director

Director

Consolidated Statement of Source and Application of Funds Year ended December 31 (thousands of dollars)

	1969	1968 Restated	1968 Reported
Source of Funds			
Operations			
Net earnings	$ 4,560	3,928	3,582
Depreciation and amortization	2,019	1,886	1,733
Deferred income tax	518	(181)	65
	7,097	5,633	5,380
Common shares issued by pooled subsidiaries	114	106	106
Convertible notes issued	16,085	—	—
Long-term debt issued	10,979	1,218	466
Sale proceeds and disposal value of property, plant and equipment, less gain	2,446	672	571
	36,721	7,629	6,523
Application of Funds			
Investments	13,238	—	—
Property, plant and equipment	6,502	3,750	2,569
Long-term debt reduction	7,227	1,681	1,569
Goodwill on purchase of businesses	1,300	—	—
Lease and finance contracts	821	183	183
Dividends paid	330	384	384
Other	268	273	640
	29,686	6,271	5,345
Working Capital			
Increase during year	7,035	1,358	1,178
Opening balance	11,041	9,683	9,283
Closing balance	$ 18,076	11,041	10,461

See notes to financial statements.

Auditors' Report To The Shareholders

We have examined the consolidated balance sheet of Neonex International Ltd. and subsidiaries as of December 31, 1969 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at December 31, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, British Columbia
February 27, 1970 except as to
Note 17 which is as of
May 14, 1970.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Consolidated Statement of Retained Earnings Year ended December 31 (thousands of dollars)

	1969	1968 Restated	1968 Reported
Opening Balance — *Note 12*	**$ 17,807**	14,327	13,510
Net earnings for the year	**4,560**	3,928	3,582
	22,367	18,255	17,092
Dividends paid by the Company	**325**	205	205
Dividends paid by pooled subsidiaries, prior to acquisition	**5**	179	179
Premium on redemption of preference shares of subsidiary	**—**	64	64
	330	448	448
Closing Balance — *Note 12*	**$ 22,037**	17,807	16,644

See notes to financial statements.

Notes to Financial Statements

December 31, 1969

1. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries.

During 1969 the Company acquired nine businesses of which five were accounted for as poolings of interests and four as purchase transactions. The consolidated statement of earnings for the year ended December 31, 1969 includes the results of operations of the pooled businesses for the full year; figures for 1968 have been restated on a comparable basis. The results of operations of the purchased businesses have been included only from the effective date of each acquisition.

Goodwill of $1,670,720, recorded at cost and classified as deferred charges and intangibles, has not been amortized as management is of the opinion that there has been no diminution in value.

The financial statements for the year ended December 31, 1968, as previously reported, have been reclassified where applicable to conform with the presentation used in the current year.

2. Short-Term Investments

As of December 31, 1969 the Company had segregated funds of $9,898,915 in bank deposit receipts of which $4,840,030 is included in short-term investments and the balance of $5,058,885 has been offset against current bank borrowings. During January 1970 the $4,840,030 was applied to reduce the amount payable on acquisition of shares.

3. Inventories

Inventories are valued at the lower of cost or net realizable value and are classified as follows:

	1969	1968
Raw materials and supplies	$ 2,508,650	1,966,712
Work in progress	1,179,188	758,069
Merchandise and finished goods	21,351,402	18,307,531
	$25,039,240	21,032,312

4. Investments

Investments are valued at cost and comprise the following:

	1969	1968
Maple Leaf Mills Limited		
225,600 common shares	$ 6,142,412	
Options to purchase 402,140 common shares	2,010,700	
Cash collateral deposit (U.S. $2,795,574)	3,000,000	
	11,153,112	
50% owned companies — shares and advances	1,092,268	
Quoted securities (quoted value $708,425)	945,459	
Other	1,379,532	1,332,047
	$14,570,371	1,332,047

Under an existing agreement, the Company will issue 2,550,000 common shares in exchange for all the outstanding shares of a company whose principal assets consist of marketable securities having a quoted value of approximately $7,500,000 and shares of a shipping company. This agreement may be consummated at the Company's option up to December 31, 1972 but not before September 30, 1970. Under another agreement, the Company by September 30, 1970 is to exchange the shares of the shipping company referred to above plus $3,000,000 (secured by the cash collateral deposit shown above) for 450,771 common shares of Maple Leaf Mills Limited.

The Company's options to acquire 402,140 common shares of Maple Leaf Mills Limited may be exercised up to December 31, 1970 on payment of an additional $10,053,500. If these options are not exercised, the grantors may require the Company to purchase the shares at the option price for varying periods up to January 31, 1971. With respect to 171,271 of the optioned shares, the grantor may require the Company to acquire such shares after the closing of the agreement whereby it is to issue 2,550,000 common shares.

After consummation of the agreements and exercise of the options, the Company will have a 67.6% interest in the common shares of Maple Leaf Mills Limited.

The 50% owned companies are in the development stage and had no operations during the year.

The agreement between the Company and Bigelow-Sanford, Inc. for the formation of Bigelow-Canada, Limited (50% owned by the Company) limits the earnings available to Imbrex Limited (wholly-owned subsidiary of the Company) and gives Bigelow-Sanford, Inc. an option to acquire up to 50% of the voting shares of Imbrex Limited up to March 31, 1975 at a price based on the earnings of that company.

5. Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and consists of the following:

	1969	1968
Land and improvements	$ 4,041,477	3,305,041
Buildings	10,764,169	10,780,048
Machinery and equipment	16,755,283	14,256,599
	31,560,929	28,341,688
Accumulated depreciation	11,660,180	10,662,243
	$19,900,749	17,679,445

Depreciation is provided on the diminishing balance method, except for transport equipment which is depreciated on the straight-line method. The following rates are used to reduce the cost of assets to residual value over their estimated useful lives:

Buildings	3% to 10%
Transport equipment	8% to 12%
Machinery and equipment	10% to 40%

6. Banks

During January 1970 the deposit receipts of $5,058,885 (Note 2) which were offset against bank loans in the balance sheet were applied to discharge related bank borrowings.

Bank indebtedness of $906,000 is secured by accounts receivable and inventories having book values of $1,810,000.

7. Long-Term Debt

Long-term debt, excluding current maturities, consists of the following:

	1969	1968
Term bank loan due February 1971 — *Note 17*	$10,731,250	—
7⅛% Promissory Note	—	3,250,000
6½% Debentures, due 1980, payable $75,000 annually	1,125,000	1,200,000
Mortgages at rates varying from 5% to 12% due at various dates to 1992	1,818,091	4,768,172
Conditional sales agreements and other loans	519,689	1,224,219
	$14,194,030	10,442,391

Approximate aggregate maturities relating to the above long-term debt for the four years following December 31, 1970 are as follows:

1971	$11,200,000	1973	240,000
1972	550,000	1974	250,000

8. Deferred Credits

Deferred credits comprise the following:	1969	1968
Income taxes	$ 2,839,646	2,244,701
Rental deposits and other	1,113,031	989,921
	$ 3,952,677	3,234,622

Neonex includes in net earnings the sale value of leased signs less related manufacturing costs and selling commissions. The related taxable income includes rental income less capital cost allowances and selling commissions incurred. Additionally, certain subsidiaries have claimed capital cost allowances for income tax purposes in amounts different from depreciation provided in the accounts. Accordingly, a provision has been made in the accounts for deferred income taxes resulting from such timing differences. Such deferred taxes amount to $3,155,246 at December 31, 1969, including $315,600 ($393,000 at December 31, 1968) attributable to current lease instalments, which amount has been included with current income taxes payable.

9. Convertible Notes

The 5¾% Convertible Senior Subordinated Notes due 1984 are repayable in annual instalments of U.S. $2,500,000 commencing January 31, 1979, subject to prior redemption by the Company at a premium of 50%. The Notes are convertible into 1,271,860 common shares in accordance with the anti-dilution provisions of the related Note agreement, to the extent to which such provisions apply as of December 31, 1969. Among other restrictions, the Note agreement limits payment of dividends to an amount not exceeding $2,000,000 plus consolidated net earnings subsequent to December 31, 1968 (amount available as of December 31, 1969 is $6,234,983).

10. Common Shares

Authorized 14,000,000 shares of no par value.

Common shares outstanding were as follows:

	Shares	Amount
Balance as of December 31, 1968	5,996,274	$4,699,097
Shares issued for poolings of interests	758,054	141,184
Balance as of December 31, 1969	6,754,328	$4,840,281

Shares issued in exchange for shares of companies pooled are as follows:

	Shares
Companies pooled during the year:	
United Trailer Co. Ltd.	506,000
Hunt Transport Group	55,360
Total Video Systems Group	56,280
Otto Mfg. Enterprises Ltd.	25,920
Triple-E Manufacturing Inc. Ltd.	66,500
	710,060
Companies pooled in prior years:	
Reimer Group (additional consideration)	40,000
Imbrex Limited (balance of shares outstanding)	7,994
	758,054

The value of $141,184 attributed to shares issued is the stated value of the shares acquired, as recorded by the respective pooled companies.

The Company has reserved 4,159,780 unissued common shares which may be issued under certain circumstances as follows: 156,000 shares for stock options (Note 11); 181,920 shares as additional consideration for certain pooled companies; 1,271,860 shares for conversion of the 5¾% Notes; and 2,550,000 shares in connection with the acquisition of common shares of Maple Leaf Mills Limited.

11. Stock Options

The Company has granted options to certain key employees to purchase common shares of the Company at 90% of the market price at date of grant (undernoted market prices are as of the respective dates on which options were granted or became exercisable) as follows:

	Number of shares	Aggregate option price	Market price
Beginning of year			
Outstanding	120,000	$1,230,000	$1,365,000
Exercisable	40,000	340,000	377,500
Changes during year			
Granted	112,000	887,760	986,500
Cancelled	76,000	958,960	—
Became exercisable	40,000	340,000	515,000
End of year			
Outstanding	156,000	1,158,800	1,287,000
Exercisable	80,000	680,000	892,500

12. Retained Earnings

The restated balance of consolidated retained earnings at January 1, 1968 is after an increase of $818,367, which is the retained earnings at that date of subsidiaries accounted for as poolings of interests in 1969, less costs related to the acquisition of pooled companies.

As of December 31, 1969, approximately $9,400,000 of the consolidated retained earnings applicable to subsidiaries is designated surplus for tax purposes. The Company would be required to pay tax at the rate of approximately 50% on any dividends received out of this amount.

The Convertible Note agreement restricts the payment of dividends as described in Note 9.

13. Commitments and Contingent Liabilities

Rentals in 1969 for retail locations, warehouses and advertising sites leased by the Company and subsidiaries were approximately $740,000. Minimum average annual rentals under these leases for the periods shown below are as follows:

1970-1974	$825,000
1975-1979	575,000
1980-1984	325,000
1985-1996	150,000

Commitments for capital construction approximated $1,500,000 as of December 31, 1969.

A subsidiary company is contingently liable in respect of discounted finance contracts totalling approximately $11,400,000 as of December 31, 1969.

A subsidiary is joined with other defendants in an action claiming damages in the amount of $1,000,000. The Company and its subsidiary have obtained a full indemnity to the extent of any judgment that may be realized. The Company's legal counsel have expressed the opinion that the subsidiary's position can be successfully defended.

Together with Bigelow-Sanford, Inc., the Company has a joint and several contingent liability in respect of bank indebtedness of Bigelow-Canada, Limited up to a maximum amount of U.S. $6,000,000. As of December 31, 1969, such indebtedness was U.S. $500,000.

14. Income Taxes

Costs and expenses for the year ended December 31, 1969 include non-taxable amounts which result in income taxes otherwise payable being reduced by $225,000.

15. Earnings Per Share

The Canadian Institute of Chartered Accountants research recommendation on earnings per share was issued in definitive form subsequent to the Company releasing such information for 1969. Earnings per share data have been computed in accordance with United States practice in order to conform with previously released 1969 information. Under such practice, earnings per share are based on the average number of shares outstanding (adjusted retroactively for shares issued for poolings of interests) assuming the issue of contingent shares and the exercise of options. Fully diluted earnings per share assume conversion of the 5¾% Notes.

In future years, earnings per share data will be presented in accordance with Canadian practice. Under such practice, earnings per share are based on the average number of shares outstanding (adjusted retroactively for shares issued for poolings of interests), and fully diluted earnings per share assume issue of contingent shares, exercise of options and conversion of the 5¾% Notes. For the year ended December 31, 1969 (and as restated on a comparable basis for 1968) earnings per share data computed under Canadian practice are as follows:

	1969	1968	
		Restated	Reported
Net earnings	68c	59c	60c
Fully diluted net earnings	61c	57c	58c

16. Statutory Information

The aggregate remuneration paid by the Company and subsidiaries to directors and senior officers of the Company for the year ended December 31, 1969 amounted to $320,450.

17. Subsequent Event

On December 17, 1969 the Company borrowed $10,731,250 (U.S. $10,000,000). In accordance with arrangements finalized with the lender on May 13, 1970, the loan will fall due on February 18, 1971 and the interest will fluctuate based on future lending rates. The approximate interest rate on the borrowings now outstanding is 10%. These borrowings have been classified in the balance sheet as of December 31, 1969 as long-term debt.

Board of Directors

Charles W. Brazier, Q.C.
Partner, Davis & Company,
Vancouver, British Columbia.

Arthur B. Christopher,
Chairman of the Board,
Nelsons Laundries Limited,
Vancouver, British Columbia.

Michael D. Dingman,
President, The Equity Corporation,
New York, New York.

Harry B. Dunbar, C.A.
Assistant to the Chairman,
Neonex International Ltd.,
Vancouver, British Columbia.

Robert W. Halliday,
Chairman of the Board,
U.S. Natural Resources, Inc.,
Boise, Idaho.

Lawrence Hoguet,
Senior Vice-President and Treasurer,
Englehard Minerals & Chemicals Corporation,
Newark, New Jersey.

C. Stuart Mitton,
President, Overwaitea Limited,
Burnaby, British Columbia.

James A. Pattison,
Chairman of the Board and Chief Executive Officer,
Neonex International Ltd.,
Vancouver, British Columbia.

Ross J. Turner,
President and Chief Operating Officer,
Neonex International Ltd.,
Vancouver, British Columbia.

Officers

James A. Pattison,
Chairman of the Board and
Chief Executive Officer

Ross J. Turner,
President and Chief Operating Officer

Stanley F. Whittle,
Group Vice-President

Griffith M. Marshall, C.A.,
Vice-President Finance and Administration

Guy J. Lewall,
Vice-President and Secretary-Treasurer

Transfer Agents and Registrars

The Canada Trust Company,
Vancouver, British Columbia; Calgary, Alberta
and Toronto, Ontario.

Bankers Trust Company,
New York, New York.

Auditors

Peat, Marwick, Mitchell & Co.,
Chartered Accountants,
900 West Hastings Street,
Vancouver, British Columbia.

Executive Offices

Sixteenth Floor,
1055 West Hastings St.,
Vancouver 1, British Columbia.
Telephone 688-6764 Area Code 604, Telex 04-507616.

Stock Exchanges

Toronto and Vancouver Stock Exchanges

LITHOGRAPHED IN CAN

REPORT TO SHAREHOLDERS

Neonex International is now Canada's largest consumer services and transportation company.

RECENT ACQUISITIONS

Your company continues to acquire successful Canadian companies, well-managed with better-than-average growth potential. Acquisitions since December 31, 1968 include:

PROVINCIAL NEWS

One of Canada's leading wholesale distributors of periodicals, magazines, and paper-back books, Provincial News holds the exclusive distribution for publications on sale in Northern Alberta, Northern British Columbia, Northern Saskatchewan, the Yukon and Northwest Territories.

The 54-year-old Edmonton-based company services over 800 customer locations. Its association with the ANC Group will help strengthen internal growth with mutual sales benefits for both companies.

UNITED TRAILER CO. LTD.

Founded in 1942, United Trailer is in the manufacture and sale of mobile homes in Canada and is the oldest and one of the largest companies of its kind in the country. In the past four years sales have grown at a rate in excess of 70% per annum.

A recent Government study identified a serious and continuing shortage of low cost housing in Canada. Business projections indicate that by 1973 the number of mobile homes on the market should double the level of 1968.

United Trailer, with 22 well-established sales outlets in British Columbia, Alberta and Saskatchewan, plans to further expand its sales organization right across the country.

Instant Housing Industries Ltd., a wholly-owned subsidiary, has a modern mobile home manufacturing plant located in Calgary, Alberta.

BAZAAR AND NOVELTY CO. LTD.

30 year old Bazaar and Novelty is one of Canada's largest outlets for the distribution and sale of bingo supplies, carnival merchandise and premium goods. Headquartered in Toronto, it distributes to leading jobbers which supply clubs, associations, schools and churches.

Bazaar and Novelty has had an excellent growth record with sales in the past four years up 14% annually. The company has become part of The ANC Group, complementing ANC's carnival division and providing important distribution outlets in the large Eastern markets of the country.

HUNT TRANSPORT LTD.

The acquisition of Hunt Transport will allow us to now provide transportation service from British Columbia to Quebec by the interlining of freight between Hunt Transport and the major transportation routes of Reimer Express Lines, one of Canada's largest transport companies.

10 year old Hunt Transport's present routes run between Vancouver, Prince Rupert, Calgary, Edmonton, Saskatoon and Regina. 17 year old Reimer Express Lines has a network of transport routes running from the provinces of Quebec to Alberta.

Your company can now offer our customers a faster, more flexible, quality operation by providing "direct through" trailer service from Montreal to Vancouver. It also places Neonex in a stronger position to not only move the products of other companies but also by transporting the consumer goods of the Neonex subsidiaries.

TOTAL SALES

Including sales of these new wholly-owned subsidiaries, annual sales of The Neonex Group is expected to exceed $150 million.

NEW DEVELOPMENTS

CARPET MANUFACTURING PLANT

In June, your company completed arrangements to enter into a joint venture with Bigelow-Sanford, Inc. of New York, to establish in Canada a major carpet manufacturing facility. The Company will be known as Bigelow Canada Ltd.

A six million dollar manufacturing plant is already under construction at St. Agathe des Monts, 58 miles northeast of Montreal. Comple-

tion has been set for next spring. In the interim period, carpets are being supplied by Bigelow-Sanford in the United States.

The distributing organization for the new manufacturing facility will be the Neonex subsidiary, Imbrex Limited, Canada's largest floor covering distributor. Imbrex operates fourteen warehouses across Canada serving some 4000 dealers.

During the first week of August, a cross-country introductory presentation was made to carpet dealers, resulting in the complete line of Bigelow carpets now being merchandized to the Canadian consumer.

ACQUISITIONS PENDING

Pending at present are the acquisitions of The TVS Group and Otto Mfg. Enterprises.

TVS, which will become part of the Neonex advertising and communications group, is involved in the custom design and installation of electronic visual communications equipment, and is one of Canada's largest suppliers of closed circuit T.V. systems for industrial and educational markets.

Otto Mfg. Enterprises, a nine year old Edmonton-based company, is one of the largest camping trailer manufacturers in Canada. The company has a network of dealers and distributors established across the country and recently moved into the U.S.

FINANCIAL REPORT

Net sales and operating revenue for the first six months of 1969 exceeded $72 million, up 16% over the $62 million in 1968. Net earnings were $1,690,000, up 11% over $1,523,000 last year. Earnings per share were 25 cents compared with 23 cents in 1968.

All significant subsidiaries acquired since 1968 have been accounted for on a pooling-of-interests basis. Accordingly, consolidated financial information includes the operations of pooled companies for the full period; amounts for 1968 have been restated on a comparable basis.

CORPORATE STAFF

At the corporate level, your company has strengthened its staff with several key appointments including that of Wesley Van Dusen, former Chairman of the Board of The ANC Group, to the Corporate Development division. Other appointments have been made in the financial and operating areas of Neonex to better meet the increasing management responsibilities.

INTERNAL GROWTH

Significant internal expansion during the first six months of this year includes: the completion of a new Reimer transportation terminal in Montreal, erection of a new ANC sales warehouse in Winnipeg, two new Northern Paint Company stores — one in Calgary and the other in Saskatoon, and the opening of several new Overwaitea Limited locations in British Columbia, including a new "Prairie Market" in the Greater Vancouver area.

AMEX LISTING

Your company filed a registration statement with the Securities and Exchange Commission on November 14, 1968; a second amendment was filed on August 19, 1969. An updating of the company's application for listing on the American Stock Exchange will be made soon.

FUTURE EXPANSION

Your company is committed to its planned program of internal growth, horizontal and vertical integration, and acquisition of successful companies in the consumer and transportation fields. A combination of greater growth and higher earnings on invested capital continues to be our goal in all future expansion.

On behalf of the Board of Directors,

J. Pattison

JAMES A. PATTISON,
President.

August 25, 1969.

LITHOGRAPHED IN CANADA

NEONEX INTERNATIONAL LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended June 30, 1969

STATEMENT OF EARNINGS

	(Thousands of Dollars) 1969	1968
Net sales and operating revenues	$72,173	$62,098
Earnings before income taxes	3,351	3,122
Provision for income taxes	1,661	1,599
Net earnings	1,690	1,523
Earnings per share (cents)*	25	23

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	1969	1968
Source of Funds		
Operations		
Net earnings	$ 1,690	$ 1,523
Depreciation and other non-cash items	936	724
	2,626	2,247
Common shares issued	114	101
Long-term debt issued	16,145	198
Sale of property, plant and equipment, excluding gain	1,196	24
	$20,081	$ 2,570
Application of Funds		
Property, plant and equipment purchased	$ 3,047	$ 1,735
Long-term debt repaid	5,798	497
Subsidiaries purchased, net of working capital	1,257	—
Dividends paid	156	207
Reduction of minority interest in subsidiaries	50	191
Other — net	895	(164)
	$11,203	$ 2,466
Working Capital Increase	$ 8,878	$ 104

*Earnings per share are calculated in accordance with the latest Opinion of the Accounting Principles Board in the United States; accordingly, common share equivalents (a defined term) are included in the calculation. Fully diluted earnings are 24 cents in 1969, assuming conversion of the 5¾% Convertible Notes on their issue date, February 4, 1969.

Note: The above figures are subject to audit and year-end adjustments.

**NEONEX INTERNATIONAL LTD.
SUBSIDIARIES**

HEAD OFFICE LOCATIONS

ADVERTISING AND COMMUNICATIONS

Neon Products Ltd.,
1885 Clark Drive,
Vancouver 12, B.C.

CONSUMER GOODS

ANC Group of Companies
10147 - 112th Street,
Edmonton, Alberta

Bazaar & Novelty Co. Limited,
22 Front Street, West,
Toronto, Ontario.

FOOD SERVICES

Overwaitea Limited,
7979 Enterprise Street,
Burnaby, British Columbia.

HOME IMPROVEMENTS

Imbrex Limited,
5901 Trans Canada Highway,
Pointe Claire, Quebec.

Northern Paint Company Limited,
394 Gertrude Avenue,
Winnipeg 13, Manitoba.

LEISURE TIME

Universport Inc.,
5901 Trans Canada Highway,
Pointe Claire, Quebec.

Provincial News Co.
14615 - 124th Avenue
Edmonton, Alberta.

Travelaire Trailer Mfg. Ltd.
67th Street and Golden West Avenue,
Red Deer, Alberta.

SHELTER FIELD

United Trailer Co. Ltd.,
3715 Edmonton Trail,
Calgary, Alberta.

TRANSPORTATION SERVICES

Associated Helicopters Ltd.,
No. 10 Hangar,
Industrial Airport,
Edmonton, Alberta.

Hunt Transport Ltd.,
2275 Douglas Road,
Burnaby, British Columbia.

Reimer Express Lines Ltd.,
1400 Inkster Boulevard,
Winnipeg 14, Manitoba.

Printed in Canada

File

NEONEX INTERNATIONAL LTD.

INTERIM REPORT

for the six months ended June 30, 1969

CANADA'S LARGEST
CONSUMER SERVICES
AND
TRANSPORTATION COMPANY

HEAD OFFICE
1225 Marine Building ← MOVED LATER TO 1055 WEST HASTINGS STREET [AROUND THE CORNER]
Vancouver, B.C.
688-6764 Area Code 604